AGRICULTURAL OUTLOOK DIGEST

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SOYBEAN SUPPLY SQUEEZE

Heavy use of soybeans is setting the scene for another tight supply situation next season.

Even though crushings and export rates have slackened in recent weeks, they remain near record levels. Domestic use of soybean oil is running about like last year, but oil exports so far this season are up nearly 50 percent. Both domestic use and exports of soybean meal have been heavier.

The record use rate comes despite relatively high soybean prices. Averaging $3 per bushel (No. 1, yellow, Chicago) between last September and early June, soybean prices topped the preceding September-June average by 44 cents. Prices rose towards $3.30 a bushel in late June.

SMALL CARRYOVER

An important factor right now is the size of the September 1 carryover, expected to be around 100 million bushels. Last September, when the carryover was a more generous 230 million bushels, the CCC held much of it. This fall, the carryover will nearly all be in commercial hands, since farmers are expected to sell most of their 1970-crop beans under loan with season-end prices well above support.

Another factor enters the picture this summer—the threat of dock strikes at U.S. ports in September or later in the fall. This could boost export demand between now and then.

With a small carryover, virtually all the next season's requirements will have to come from the new crop. Based on March 1 planting intentions of 46.5 million acres and recent yield trends, farmers could turn out around 1¼ billion bushels of beans. Soybean disappearance during the current marketing year, which could be matched in 1971/72, probably will equal this volume.

CIGARETTES MARCH ALONG WITHOUT THE MUSIC

TV and radio fans noticed a sudden change on January 2. Cigarette ads, and for that matter most anti-cigarette ads, departed the airwaves. Despite the prior debate on this action, cigarette use so far has proceeded much as before.

For the next 4 months, cigarette consumption by domestic smokers and U.S. forces overseas registered 3 percent higher than in January-April the year before. And for the year ended June 30, consumption was an estimated 540 billion smokes, a small increase that implied no change in per capita adult smoking rates.

Helping to explain the higher total cigarette use was a barrage of new brands issued last fall and a leveling off in retail price per pack.

OUTPUT ALLTIME HIGH

The biggest output year yet for cigarette manufacturers ended June 30. Heavier use at home, bigger sales abroad, and inventory-building encouraged production of almost 590 billion smokes.

CIGAR SALES STEADY

U.S. smokers and overseas forces puffed a little more than 8 billion cigars and cigarillos during the 1970/71 fiscal year, about the same number as in the previous year. Cigarillos scored again: In 1970, the cigarillo's share rose to over a third of total cigar sales. A cigarillo, on the average, weighs half as much as a traditional-size cigar.

TOBACCO STOCKS STAY LOW

The tobacco leaf carryover remains much the same as last year's 3.68 billion pounds, the lowest level since 1953. Use of tobacco in the 1970/71 season fell short of last season's total, but equaled the amount of the 1970 tobacco crop.

LEAF EXPORTS DOWN

U.S. exports of unmanufactured tobacco leaf totaled around 5 percent below the 571 million pounds exported during 1969/70. But, since more tobacco each year moves in unstemmed form, the equivalent farm-sales weight was down only slightly from the 646 million pounds exported last season.

Flue-cured exports for the year ended June 30 probably were off 3 percent, mainly due to lower sales to the United Kingdom. U.K. manufacturers are importing a larger volume of lower priced tobaccos from other nations, and U.K. cigarette sales have

been hurt recently by a health-smoking report.

Burley exports were down during October 1970-April 1971. But expected purchases by Italy could pull exports up to the 48 million pounds of last season by September 30.

During the last 6 months of 1971, total U.S. leaf exports could equal the 300 million pounds shipped in that period of last year as favorable economic conditions continue to increase demand for tobacco in our major West European markets.

PRODUCT EXPORTS RISE

At the same time that leaf tobacco exports are down, shipments of tobacco products are doing well. During 1970/71, cigarette exports through this April were 4 percent ahead of the year-earlier period. Through June, we exported an estimated 30 billion cigarettes, or around 5 percent of domestic output.

Bulk shipments of smoking tobacco for use in cigarettes in 1970/71 probably topped the prior season's 20 million pounds by a third, due to growing popularity of American-blend type cigarettes.

TOBACCO TYPE HIGHLIGHTS

Domestic flue-cured tobacco use fell about 5 percent during the 1970/71 marketing year to a 23-year low. Apparently, U.S. manufacturers used a smaller percentage of flue-cured tobacco in cigarettes. Exports were down a little. The June 30 carryover rose an estimated 2 percent to 1.98 billion pounds, but was still more than a fifth under 1965 record stocks. Lower acreage planned by growers could reduce the 1971/72 marketing-year supply 5 percent below last year's level.

When the burley marketing year ends October 1, a carryover a little below last year's 1 1/3 billion pounds is in store. Steady exports and rising cigarette output have helped keep up disappearance. In 1971/72, supplies may total about the same as the 1.9 billion pounds on hand this year.

Maryland tobacco prices for the 1970 crop moved to a record high as output continued to decrease, and leaf quality was much better than last year. Most Maryland tobacco goes into American cigarettes; exports of this type go principally to Switzerland. Output this year may rise 5 percent over the 1970 crop. But the carryover on January 1 will be down and supplies probably will be the smallest in 25 years.

LIFTED BANS WON'T LIFT EXPORTS YET

On June 10, the President took actions that may increase U.S. trade with the Communist world. He removed an export license requirement that half of the wheat and feed grain sales (including CCC credit sales) to most of Communist Europe and to the U.S.S.R. go on American freighters. (The 50-50 requirement on freighters still applies to all P.L. 480 shipments.)

He also greatly reduced the number of items embargoed from trade with Red China. Farm products are prominent on the list of newly approved items.

Little immediate boost to farm exports is expected from either action.

U.S. farm exports to Communist Europe and the U.S.S.R. have boomed lately, despite the 50-50 shipping requirement: Sales rose to $188 million during July 1970-March 1971, three-fourths higher than the same period a year before, mainly on the strength of bigger soybean sales.

Removal of the 50-50 shipping requirement will mainly affect potential wheat sales to the region. Technicalities in the 50-50 requirement have permitted frequent sales of feed grains to Eastern Europe—primarily to East Germany, Poland, and Czechoslovakia. Wheat shipments to the region, though, effectively ended after the rule was established in 1963: U.S. freighters charge higher cargo rates that would make wheat less competitive on the world market, and, in addition, Russia usually supplies most of the region's wheat requirements from domestic production.

Right now the prospect of larger grain sales is almost nil. Russia reported a record grain crop in 1970 and concluded a deal with Canada for 3.5 million tons of wheat. But short grain crops in Russia or Eastern Europe or a tighter world supply could put us back in the picture.

Communist China, halfway around the globe, encompasses a similar range of growing conditions and about the same land mass as the United States. Its population, though, is 4 times as large. In a good growing year, China has the diversity and volume of farm production to be nearly self-sufficient. But China has been a fairly steady importer of agricultural products, mainly from noncommunist countries. If China were willing to strike a deal on farm products, and considering the Chinese population, a gradual buildup of trade would be possible.

Wheat, cotton, and possibly tobacco seem to be the items China would most likely import from us.

China has imported 4-6 million tons of wheat annually from Canada, Australia, Argentina, and France. About 300,000 bales of raw cotton are also imported, partly to produce cloth for export and partly to meet strictly rationed domestic needs. Although China produces nearly as much flue-cured tobacco as we do, and exports tobacco as well, some mutual tobacco trade might be possible.

China has not imported feed grains for several years. The largest soybean producer after the United States, China exports around a half-million tons of oils and products annually. China also exports live poultry and hogs to Hong Kong and other nearby markets, and sells large quantities of processed fruits and vegetables abroad, often in competition with our own exports.

GRADUAL CHANGE MARKS VEGETABLE PRODUCTION

Vegetable farming is noted for year-to-year changes in production and prices, especially for fresh market items. These ups and downs mask the longer term and more permanent changes that are affecting vegetable producers.

The long-term pressures are manifold and related. Labor is a key factor. Wages are rising at the same time that new techniques of growing and harvesting are reducing labor needs. Meanwhile, rising imports from Mexico are making inroads on labor-intensive items and challenging domestic producers. All along, popularity of many fresh vegetables is slowly waning while processed use increases.

The struggle to survive in a changing business is gradually shifting vegetable production to the regions and States where each item can be grown and marketed most advantageously. Meanwhile, crops that require a large labor input by today's standards increasingly are being imported.

Production is gradually shifting to the West. The western share of vegetable production (both fresh and for processing) has increased over a tenth since the late 1950's; now accounts for half the U.S. total. California's output has increased substantially and is the source of most of the western vegetable supply. Fresh vegetable producers prefer the West for the relatively stable, warm climate, good soil, and irrigation. Processing growers bank on efficient techniques and lower overall production costs.

The South Atlantic and South Central States have held their own in the fresh vegetable business so far, despite shrinking per capita use and growing competition from Mexico and western growers.

Output of bountiful truck gardens in the Northeast has been reduced by western competition and a tightening labor supply, as well as by rapid urban expansion and by a relatively risky climate. Production is trending down in the North Central and North Atlantic States, although output of certain processed items is rising.

Recent trends indicate that a rising population is offsetting smaller individual use of fresh vegetables. Since 1960, when we enjoyed an average of 106 pounds of fresh vegetables each, consumption has diminished to 98 pounds.

Among leading fresh items, total output of lettuce, sweet corn, onions, and carrots gained during the last 15 years, while fresh tomato, cabbage, and celery production changed little.

Loss of fresh-vegetable popularity is partly explained by the rise in consumption of processed vegetables from 84 pounds per person in 1960 to 102 pounds a decade later. Total tonnage of vegetables grown for processing has increased a third in 15 years.

Tomatoes figure importantly in this boom. To meet a steadily-expanding demand for processed products, notably for fast-food outlets, output has grown by over half, flourishing mainly in California, Ohio, and Indiana.

Frozen sweet corn, along with fresh, enjoys growing popularity. Farmers in the Pacific Northwest, Minnesota, and Wisconsin have expanded contract production.

Improved varieties have aided the flavor, eating quality, and ultimately sales of processed snapped beans. Producers in Wisconsin, Oregon, and New York are supplying most of the increased crop.

Finally, the pickle. The country seems starved for this tangy relish, and the pickle crop is nearly twice what it was 15 years ago.

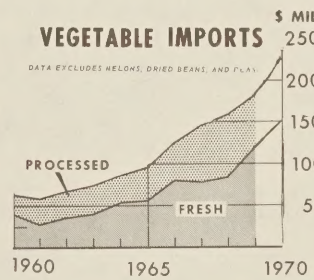
MORE VEGETABLE IMPORTS

The volume of imported vegetables which supplements domestic production has risen fast. About half the imports, dollarwise, come from Mexico. But Canada, Europe, and the Orient add substantially to our vegetable purchases.

Fresh vegetables accounted for over two-thirds of value of last year's imports. Most fresh vegetables come from Mexico and Canada. Among processed imports, Portugal, Italy, and Spain provided tomato products, Spain also provided olives, and Taiwan shipped primarily mushrooms and asparagus.

Fresh and Processed vegetable imports

Year	1960	1968	1969	1970
	Million Dollars			
Canada	6.0	11.1	14.2	14.7
Italy	11.5	14.4	10.6	10.6
Mexico	28.0	70.0	103.9	140.8
Portugal	0.1	15.0	7.5	6.3
Spain	0.9	9.4	8.3	10.4
Taiwan	1.0	14.1	14.1	18.2
Other	16.2	26.2	24.6	31.5
Total	63.7	160.2	183.2	232.5



Imports from Mexico are increasingly important on the produce counter, especially during winter months. U.S. market penetration fluctuates weekly, but over a year's time, Mexico supplies a fifth of our fresh cucumbers, eggplant, and tomatoes, and smaller shares of a number of other items.

Assuming no further regulatory barriers to imports in the future, increasing vegetable supplies from Mexico are likely for tomatoes, peppers, cucumbers, eggplant, and melons, crops that combine an off-season market with a large labor input. Further mechanization of these vegetables must come if they are to retain their present importance in domestic production.

EGGS: RELIEF BY FALL

Egg prices this spring skidded to their lowest levels in 3 years. Grade A large eggs delivered in Chicago in early June sold for around 27 cents, 7 cents below the June 1970 average. But by late June, prices strengthened to the 33-cent level.

Prices will increase this summer as output declines seasonally, weaken as usual in early fall, then strengthen as increased holiday demand more than offsets the seasonal autumn rise in production. Egg prices by December may average about the same as in 1970.

BROILER PRICES HOLD UP

Smaller supplies of broiler meat during this summer will work to hold prices above year-earlier levels. Broiler prices likely will rise to a summer peak, then decline seasonally in the fall, but remain above year-earlier levels. Although pork supplies will continue large, they probably will be below last year in the fall.

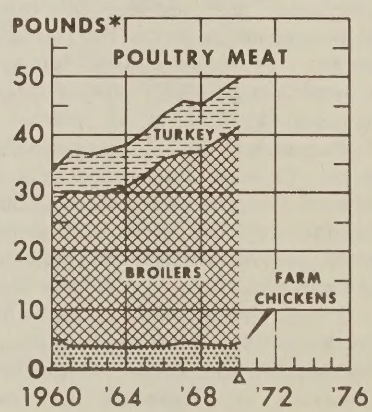
Broiler production averaged only slightly under last year for the first half of 1971. Output won't match the 1970 level this summer, but may equal it by fall and pass it during closing months of the year.

BROILER USE GROWS

Back in 1950, U.S. growers produced 630 million broilers, and per capita consumption stood at under 9 pounds. Today, output of close to 3 billion birds annually yields around $1.5 billion in cash receipts, and we each eat an average 37 pounds of broiler meat.

We'll eat even more than that soon. An ERS projection of broiler meat consumption shows a likely increase to nearly 45 pounds by 1980. Broiler production won't grow much in the North Atlantic and North Central States, but will be much larger by 1980 in the South Atlantic and South Central States, where it's already concentrated. Western output will expand moderately.

PER CAPITA POULTRY CONSUMPTION



* READY-TO-COOK WEIGHT. Δ ESTIMATED.

PEACH OUTPUT STEADY

Peach production could well turn out close to last year's 2.9 billion pounds. North Atlantic and North Central States expect larger crops; less may come from the South and California. A late-June report on California clingstone peach production predicts a 5-percent smaller crop of less than 1.4 billion pounds. Larger sizes and more fruit per tree were more than offset by State surplus elimination programs. Clingstone peaches are used primarily for canning.

More Bartletts may swell pear production over a third to 535,000 tons. . . .Cherry output also has increased. . . .Pie-cherry production is forecast a tenth larger and sweet-cherry output up over 13 percent. . .-California expects fewer prunes and plums, but more apricots and almonds than last year.

The U.S. strawberry crop dropped 4 percent this year, to an indicated 476 million pounds. West Coast prices have dropped, although eastern growers have been garnering more for the berries. Fresh strawberry imports from Mexico hit a record 41.5 million pounds during January-April.

HIGHER FRESH CITRUS PRICES

With the harvests nearing completion, U.S. orange production is forecast 4 percent higher than last season, but with a smaller California Navel crop, fresh orange supplies are down. Fresh orange prices in both California and Florida are much higher than a year ago. The total grapefruit crop is up 12 percent and fresh use is 5 percent over last season. Processing prices are down, but fresh prices have picked up above last season's levels in both California and Texas. An 8-percent larger lemon crop is bringing 31-percent higher fresh prices, but lower processing returns.